

APS330

This disclosure on the capital and credit risk refers to Laboratories Credit Union Ltd (ABN 77 087 650 217)

The information in this report is prepared quarterly based on Laboratories Credit Union financial records. The financial records are not audited for the Quarters ended 30 September, 31 December, and 31 March.

The report as at the 30 June is based on the financial statements as audited as at the 30 June.

Prescribed Statement - Laboratories Credit Union Ltd is using the post 1 January common disclosure template because it is fully applying the Basel III regulatory adjustments as implemented by APRA

There are no other legal entities that comprise a consolidated group.

Glossary of terms used in this guide is

- AT1' refers to **Additional Tier 1 Capital**
- The Basel II framework' refers to the document *International Convergence of Capital Measurement and Capital Standards: A Revised Framework, Comprehensive Version*, June 2006, published by the Basel Committee on Banking Supervision (the Basel Committee);
- 'Basel III' refers to the document *Basel III: A global regulatory framework for more resilient banks and banking systems*, revised version, June 2011, published by the Basel Committee;
- 'CET1' refers to **Common Equity Tier 1 Capital**;
- 'T1' refers to **Tier 1 Capital**; and
- 'T2' refers to **Tier 2 Capital**.

The capital terms are further defined in the APRA Prudential Standards APS 110.

CAPITAL BASE

The details of the components of the capital base are set out below as at the financial year ended 30th June 2016. These amounts coincide with the audited accounts.

The following table 1 sets out the elements of the capital held by the Laboratories Credit Union including the reconciliation of any adjustments required by the APRA Prudential Standards to the audited financial statements. Adjustments are usually in the form of deductions of assets not regarded as recoverable in the short term (such as intangible assets and deferred tax assets), and or discounts made to eligible capital of a short term nature.

All regulatory capital elements are consistent with the audited financial statements as at the last reporting date.

CAPITAL

Table 1: Capital

	Common Equity Tier 1 Capital : instruments and reserves	Current quarter Mar 17	Previous quarter Dec 16
		\$,000	\$,000
1	Directly issued qualifying ordinary shares (and equivalent for mutually-owned entities) capital		
2	Retained earnings	12,100	11,904
3	Accumulated other comprehensive income (and other reserves)	23	23
4	<i>Directly issued capital subject to phase out from CET1 (only applicable to mutually-owned companies)</i>		
5	Ordinary share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)		
6	Common Equity Tier 1 capital before regulatory adjustments	12,123	11,927
	Common Equity Tier 1 Capital : regulatory adjustments		
7	Prudential valuation adjustments	306	269
8	Goodwill (net of related tax liability)		
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	306	269
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		
11	Cash-flow hedge reserve		
12	Shortfall of provisions to expected losses		
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	N/A	N/A
14	Gains and losses due to changes in own credit risk on fair valued liabilities		
15	Defined benefit superannuation fund net assets		
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)		
17	Reciprocal cross-holdings in common equity		
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	235	235

19	Significant investments in the ordinary shares of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)		
20	Mortgage service rights (amount above 10% threshold)		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	211	211
22	Amount exceeding the 15% threshold		
23	of which: significant investments in the ordinary shares of financial entities		
24	of which: mortgage servicing rights		
25	of which: deferred tax assets arising from temporary differences		
26	National specific regulatory adjustments (sum of rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i and 26j)		
26a	of which: treasury shares		
26b	of which: offset to dividends declared under a dividend reinvestment plan (DRP), to the extent that the dividends are used to purchase new ordinary shares issued by the ADI		
26c	of which: deferred fee income		
26d	of which: equity investments in financial institutions not reported in rows 18, 19 and 23		
26e	of which: deferred tax assets not reported in rows 10, 21 and 25		
26f	of which: capitalised expenses		
26g	of which: investments in commercial (non-financial) entities that are deducted under APRA rules		
26h	of which: covered bonds in excess of asset cover in pools		
26i	of which: undercapitalisation of a non-consolidated subsidiary		
26j	of which: other national specific regulatory adjustments not reported in rows 26a to 26i		
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		
28	Total regulatory adjustments to Common Equity Tier 1	752	715
29	Common Equity Tier 1 Capital (CET1)	11,371	11,211

	Additional Tier 1 Capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments		
31	of which: classified as equity under applicable accounting standards		
32	of which: classified as liabilities under applicable accounting standards		
33	<i>Directly issued capital instruments subject to phase out from Additional Tier 1</i>	0	0
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)		
35	<i>of which: instruments issued by subsidiaries subject to phase out</i>		
36	Additional Tier 1 Capital before regulatory adjustments	0	0
	Additional Tier 1 Capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	0	0
38	Reciprocal cross-holdings in Additional Tier 1 instruments		
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)		
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
41	National specific regulatory adjustments (sum of rows 41a, 41b and 41c)		
41a	of which: holdings of capital instruments in group members by other group members on behalf of third parties		
41b	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidations not reported in rows 39 and 40		
41c	of which: other national specific regulatory adjustments not reported in rows 41a and 41b		
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
43	Total regulatory adjustments to Additional Tier 1 capital	0	0

44	Additional Tier 1 capital (AT1)	0	0
45	Tier 1 Capital (T1=CET1+AT1)	11,370	11,211
	Tier 2 Capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments		
47	<i>Directly issued capital instruments subject to phase out from Tier 2</i>	<i>1000</i>	<i>1000</i>
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group T2)		
49	<i>of which: instruments issued by subsidiaries subject to phase out</i>		
50	Provisions	729	729
51	Tier 2 Capital before regulatory adjustments	1,729	1,729
	Tier 2 Capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	500	400
53	Reciprocal cross-holdings in Tier 2 instruments		
54	Investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)		
55	Significant investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions		
56	National specific regulatory adjustments (sum of rows 56a, 56b and 56c)		
56a	of which: holdings of capital instruments in group members by other group members on behalf of third parties		
56b	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidation not reported in rows 54 and 55		
56c	of which: other national specific regulatory adjustments not reported in rows 56a and 56b		
57	Total regulatory adjustments to Tier 2 capital	500	400
58	Tier 2 capital (T2)	1229	1329
59	Total capital (TC=T1+T2)	12,600	12,541
60	Total risk-weighted assets based on APRA standards	77,895	78,313

Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	14.60%	14.32%
62	Tier 1 (as a percentage of risk-weighted assets)	14.60%	14.32%
63	Total capital (as a percentage of risk-weighted assets)	16.18%	16.01%
64	Buffer requirement (minimum CET1 requirement of 4.5% plus capital conservation buffer of 2.5% plus any countercyclical buffer requirements expressed as a percentage of risk-weighted assets)	7%	7%
65	<i>of which: capital conservation buffer requirement</i>	4.50%	4.50%
66	<i>of which: ADI-specific countercyclical buffer requirements</i>	2.50%	2.50%
67	<i>of which: G-SIB buffer requirement</i>		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)	2.60%	2.32%
National minima (if different from Basel III)			
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)		
70	National Tier 1 minimum ratio (if different from Basel III minimum)		
71	National total capital minimum ratio (if different from Basel III minimum)		
Amount below thresholds for deductions (not risk-weighted)			
72	Non-significant investments in the capital of other financial entities		
73	Significant investments in the ordinary shares of financial entities		
74	Mortgage servicing rights (net of related tax liability)		
75	Deferred tax assets arising from temporary differences (net of related tax liability)		
Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	729	729
77	Cap on inclusion of provisions in Tier 2 under standardised approach	729	729
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		

79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	<i>Current cap on CET1 instruments subject to phase out arrangements</i>		
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>		
82	<i>Current cap on AT1 instruments subject to phase out arrangements</i>		
83	<i>Amount excluded from AT1 instruments due to cap (excess over cap after redemptions and maturities)</i>		
84	<i>Current cap on T2 instruments subject to phase out arrangements</i>	1,000	1,000
85	<i>Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)</i>	500	400

CAPITAL INSTRUMENTS

The regulatory capital in the credit union is comprised of and limited to

Retained earnings

General reserve for Credit Losses

Asset revaluation reserves

Tier 1 Capital

Tier 2 Capital (Sub-ordinated Debt)

Table 2: Capital Instruments

Main Features		Tier 2
1	Issuer	Australian Mutual Investment Trust
	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
2	Governing law(s) of the instrument	NSW Australia
Regulatory treatment		
4	Transitional Basel III rules	Transition Eligible
5	Post-transitional Basel III rules	Non Eligible Capital
6	Eligible at solo/group/group & solo	N/A
7	Instrument type (ordinary shares/preference shares/subordinated notes/other)	Term Unsecured Subordinated Debt instruments
8	Amount recognised in Regulatory Capital (Currency in mil, as of most recent reporting date)	0.5mil
9	Par value of instrument	1mil
10	Accounting classification	Subordinated Debt
11	Original date of issuance	9-Nov-12
12	Perpetual or dated	Dated
13	Original maturity date	Nov-22
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	On any Interest payment date following 5th anniversary, redemption all, or some, minimum AUD\$100,000 multiples
16	Subsequent call dates, if applicable	As above
Coupons/dividends		
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	AUD BBSW+593bps
19	Existence of a dividend stopper	N/A

20	Fully discretionary, partially discretionary or mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Non cumulative or cumulative	Non cumulative
23	Convertible or non-convertible	Non convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	Yes
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination heirarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated
36	Non-compliant transitioned features	Yes
37	If yes, specify non compliant features	No write down or convertible feature

CAPITAL REQUIREMENTS

Capital requirements of Laboratories Credit Union is determined by the risk weights of the relevant assets held with the minimum required capital to over 8% of the risk weighted assets. Laboratories Credit Union Ltd maintains a capital policy level of minimum 12% and a capital target of 15%. The current level of capital is 16.18%

The risk weighted assets for each asset grouping as set out in the table below is determined by the APRA Prudential Standards APS 112. These are prescribed risk weights to measure the level of risk based on the nature and level of security supporting the assets recovery.

Table 3: Risk Weighted Assets (RWA) by asset class

	Prescribed RWA	
	Mar-17	Dec-16
	\$'000	'\$'000
(a) Capital requirements (in terms of risk-weighted assets) for credit risk (excluding securitisation) by portfolio;		
Cash	0	0
Liquid investments	14,262	15,038
Loans - secured by residential mortgage	43,654	42,558
Loans - other retail	2,288	1,587
Loans - corporate	3,226	3,216
all other assets	133	155
Total credit risk on balance sheet	63,563	62,554
Total credit risk off balance sheet (commitments)	4,765	6,192
· Undrawn financial commitments (overdrafts, credit cards, line of credit, Loans approved not advanced, guarantees)		
· Capital requirements for securitisation	0	0
(b) Capital requirements for market risk.	0	0
(c) Capital requirements for operational risk.	9,567	9,567
Total Risk Weighted assets (Sum above components)	77,895	78,313

CAPITAL HELD

The capital held by Laboratories Credit Union exceeds the policy and minimum capital prescribed by the APRA Prudential standards. This excess facilitates future growth within the ADI.

The capital ratio is the amount of capital described in Table 1 divided by the risk weighted assets.

	Capital Ratio	
	Mar-17	Dec-16
Common Equity Tier 1	14.60%	14.32%
Tier 1	14.60%	14.32%
Total Capital	16.18%	16.01%

CREDIT RISK

Surplus cash not invested in loans to members are held in high quality liquid assets. This included the funds required to be held to meet withdrawal of deposits by members of Laboratories Credit Union Ltd.

Laboratories Credit Union Ltd uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposure, where applicable, using the credit quality assessment scale in APRA prudential Guidance in APS112. The credit quality assessment scale within this standard has been complied with.

Table 4 below excludes the Equities and securitisation exposures. Securitisation exposures are set out in the table 5 that follows.

The exposure values associated with each credit quality step are as follows;

Table 4: Credit Risk (investments)

Mar-17						
Investments with banks and other ADI's	Average gross exposure in quarter \$'000	Carrying value on balance sheet at 31/03/17 \$'000	Past due facilities \$'000	Impaired facilities \$'000	Specific Provision as at end of qtr \$'000	Increase in specific provision and write offs in qtr \$'000
Cuscal - rated A+ Long Term and A-1 Short Term		5,640				
Major Banks - rated AA - Long Term and above, and A-1 Short Term		11,000				
Other rated ADIs - rated A+ Long Term and below, and A-2 Short Term		22,124				
Unrated institutions – Credit Unions, Banks and Building Societies		3,000				
Total		41,764	-	-	-	-

Dec-16						
Investments with banks and other ADI's	Average gross exposure in quarter \$'000	Carrying value on balance sheet at 31/12/16 \$'000	Past due facilities \$'000	Impaired facilities \$'000	Specific Provision as at end of qtr \$'000	Increase in specific provision and write offs in qtr \$'000
Cuscal - rated A+ Long Term and A-1 Short Term		8,040				
Major Banks - rated AA - Long Term and above, and A-1 Short Term		13,119				
Other rated ADIs - rated A+ Long Term and below, and A-2 Short Term		20,983				
Unrated institutions – Credit Unions, Banks and Building Societies		6,000				
Total		48,142	-	-	-	-

CREDIT RISK – LOANS

The classes of loans entered into by Laboratories Credit Union are limited to loans; commitments and other non-market off-balance sheet exposures. Laboratories Credit union does not enter into debt securities and over-the-counter derivatives.

Impairment details

The level of impaired loans by class of loan is set out below. In the note below -

Carrying Value is the amount of the balance sheet gross of provision (net of deferred fees)

Past due loans is the 'on balance sheet' loan balances which are behind in repayments past due by 90 days or more but not impaired

Impaired loans are the 'on balance sheet' loan balances which are at risk of not meeting all principle and interest repayments over time

Provision for impairment is the amount of the impairment provision allocated to the class of impaired loans

The losses in the period equate to the additional provisions set aside for impaired loans, and bad debts written off in excess of previous provision allowances.

The impaired loans are generally not secured against residential property. Some impaired loans are secured by bill of sale over motor vehicles or other assets of varying value. It is not practicable to determine the fair value all collateral as at the balance date due to the variety of assets and condition

The analysis of the ADI's loans by class, is as follows;

Mar-17						
Loans Portfolio	Gross exposure value - Average for the period \$'000	Gross exposure value on balance sheet at 31/3/17 \$'000	Commitments – redraws, overdraft facilities undrawn \$'000	Past due facilities \$'000	Impaired facilities \$'000	Specific Provision as at end of qtr \$'000
Mortgage secured	117,166	120,188	22,428			
Personal	1,787	2,185	1,107	257	37	24
Overdrafts & Credit cards	82	78	1,921			
Corporate borrowers	4,378	4,362				
Total	123,413	126,813	25,456	257	37	24

Dec-16						
Loans Portfolio	Gross exposure value - Average for the period \$'000	Gross exposure value on balance sheet at current 31/12/16 \$'000	Commitments – redraws, overdraft facilities undrawn \$'000	Past due facilities \$'000	Impaired facilities \$'000	Specific Provision as at end of qtr \$'000
Mortgage secured	116,082	118,659	23,791			
Personal	1,726	1,715	1,641	13	13	13
Overdrafts & Credit cards	78	76	1,888			
Corporate borrowers	4,392	4,278				
Total	122,278	124,728	27,320	13	13	13

GENERAL RESERVE FOR CREDIT LOSSES

This reserve is set aside to quantify the estimate for potential future losses in the loans and investments.

In addition to the provision for impairment, the board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties in the future, and the risk of loss on investments and other assets.

	Mar-17	Dec-16
	\$'000	\$'000
Balance	729	729

SECURITISATION ARRANGEMENTS

Laboratories Credit Union has entered into arrangements for securitised loans to support its liquidity requirements from time to time. The table below states the current value of securitised loans managed by Laboratories Credit Union and the amount securitised in the past quarter.

Table 5: Securitised Exposures

Mar-17			
	Loans Securitised in Current qtr, by type of securitisation	Securitised Loans On-balance sheet exposure retained or purchased Aggregate amount	Securitised Loans Off- balance sheet exposures Aggregate amount
	\$'000	\$'000	\$'000
Mortgage loans	0	0	0
Personal loans	0	0	0
Credit cards	0	0	0
Total	0	0	0

Dec-16			
	Loans Securitised in Current qtr, by type of securitisation	Securitised Loans On-balance sheet exposure retained or purchased Aggregate amount	Securitised Loans Off- balance sheet exposures Aggregate amount
	\$'000	\$'000	\$'000
Mortgage loans	0	0	0
Personal loans	0	0	0
Credit cards	0	0	0
Total	0	0	0

The recognised gain or loss on securitised arrangements entered into in the past quarter is \$ Nil